

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 57th LEGISLATURE - REGULAR SESSION JOINT APPROPRIATIONS SUBCOMMITTEE ON GENERAL GOVERNMENT AND TRANSPORTATION

Call to Order: By **CHAIRMAN BOB DAVIES**, on February 7, 2001 at 8:10 A.M., in Room 317-B Capitol.

ROLL CALL

Members Present:

Rep. Bob Davies, Chairman (R)
Sen. Jack Wells, Vice Chairman (R)
Rep. John Brueggeman (R)
Rep. Monica Lindeen (D)
Sen. Bea McCarthy (D)
Sen. Corey Stapleton (R)

Members Excused: None.

Members Absent: None.

Staff Present: David Brown, Legislative Branch
Greg DeWitt, Legislative Branch
Mary Beth Linder, OBPP
Cyndie Lockett, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: Department of Administration,
2/7/2001; State Auditor,
2/7/2001
Executive Action:

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{Tape : 1; Side : A; Approx. Time Counter : 0 - 30}

Chuck Swysgood, Director Office of Budget Program & Planning talked about the Department of Administration. He wanted the subcommittee to know that the Risk Management and Tort Claims Defense Division does not have the money in the reserve balance to cover their claims. The reality is that the Office of Budget Program & Planning will have to ensure the state pays the claims.

Sen. Stapleton asked what percentage of this is projected as compared with existing claims that have to be paid now.

Mr. Swysgood responded that most everything in the budget is projected. He said they use information on past experience to base their estimates for budget or cost. He also stated that the state is self-insured up to \$150,000. Its insured up to about \$200,000 something for the prison. He also stated that the state is viewed as having deep pockets.

Chairman Davies asked if the money is short, are people more willing to bargain. **Mr. Swysgood** said if the money appears short that people will become more aggressive in their endeavors to push the issue further, because the state has no way to counter attack.

Chairman Davies explained that its difficult because there is not very much general funds available.

Mrs. Linder asked the subcommittee to look at page A-182 in the LFD Budget Analysis book. She went into an explanation on how the tort claims works.

Sen. Stapleton said the issue is not that we do not understand. Reducing the amount of increase is how he sees it and the subcommittee is still causing an increase in premiums that are charged to the agencies. The 25 percent increase in premiums that the subcommittee allowed the Department of Administration to charge other agencies is reasonable. It's a reasonable increase in a year when increases are hard to find anyway.

Sen. Wells asked what kind of deficit did tort claims incur versus what they were authorized and thought they would have.

Mrs. Linder said that **Brett Dahl, Administrator for Risk Management & Tort Defense, EXHIBIT(jgh31a03)** would be the best one to answer that. **Mr. Dahl** said the original rate was 39 percent increase in fiscal 2002 above the fiscal 2000 base and for fiscal 2003 the increase is 50 percent above the fiscal 2002 base. He stated if all the cases came due today it would cost

\$22 million. He said with subcommittee's actions it does not even start to address the unfunded liability. To date this fiscal year roughly \$4 million on settlements and judgements have been paid. Last year was \$7.7 million that was spent. The original rate increase that tort claims put before the subcommittee contemplated that we would be able to cover two back-to-back \$4.7 million years, on a cash basis: back-to-back not on a total fund basis, but simply on a cash basis that is money they would have to be able to enter into these settlements and to pay these judgements. In a situation where they are negotiating with a plaintiff on a high level claim it is bad to be put in a position where there is no authority or money to be able to negotiate, because the courts really do not empathize with that.

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Chairman Davies expressed his concern about tort claims. He said if we are not able to curtail the expenditures of the state government efficiently and have a reasonable ending fund balance we will be back up here again. The usual alternative is a tax increase. Most have pledged not to do that. He then went into explaining the Lapitker Theory. After explaining this theory he said that the thing for him to do is to ask all the agencies to see if they can help and where budgets can be cut.

Mr. DeWitt clarified why the Department of Administration came before the subcommittee and that was to discuss the decisions that had been made. **Mr. DeWitt** also commented that **Barbara Ranf, Director of Department of Administration**, wanted to speak before the subcommittee. There were three issues the agency wanted to address. The tort claims general liability, GASB 34 **EXHIBIT (jgh31a02)**, and the 31 percent vacancy savings on the State Tax Appeal Board.

Sen. Wells asked not to take any action on these issues.

Sen. McCarthy asked if there were other areas in her organization that could be cut to make up for her issues that she wanted to reinstate.

Mrs. Ranf said she will take a look.

Sen. Stapleton commented on SB 131 and how that pertains to the Department of Administration.

Mrs. Ranf explained that SB 131 and how the fiscal notes will be redone.

Chairman Davies asked **JereAnn Nelson, Administrator for State Tax Appeal Board**, what can you live with in terms of the vacancy savings factor. **Mrs. Nelson** said they can live with 20 percent.

Mr. DeWitt asked if that included the Governor's 4% vacancy savings. **Mrs. Nelson** said yes.

Rep. Brueggeman pointed out that it is very important that agencies understand that the subcommittee is trying to put money back in the general fund. They do not want to play games and need the agencies to help them in deciding what they can do without.

Sen. Stapleton wanted to know if the subcommittee is going to look at each agency budget again. **Chairman Davies** said the subcommittee will take a hard look at it. **Sen. Stapleton** did not understand why the decisions the subcommittee had made are being appealed at every point. They have not been arbitrary decisions and he feels that they are good decisions.

Mr. DeWitt said he could send a message to all the agencies subcommittee has heard and ask them to make recommendations for further reductions that are reasonable to help with the general fund.

Sen. Wells commented that if the agencies want to get some of the programs back that the subcommittee cut then they should bring something to the table. They should offer up other cuts that could work and then have the already cut programs reinstated.

{Tape : 2; Side : A; Approx. Time Counter : 0 - 30}

HEARING ON STATE AUDITOR

John Morrison, the State Auditor explained the function of the Auditor's Office **EXHIBIT(jgh31a01)**. He emphasized the subcommittee should know the insurance department is funded entirely by fees paid by the 1400 insurance companies doing business in Montana. Since this is not general fund money the our insurance budget does not affect the overall budget of the State of Montana. The companies they regulate that pay these fees will testify in favor of the State Auditor's insurance budget proposal.

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Mr. Morrison also discussed bills that will affect the agency. He introduced the staff and thanked the insurance industry for their support.

Sen. McCarthy asked about the lease on the Shodair building where the that State Auditor rents office space. **John Huth, Director of Budgeting and Accounting for State Auditor** indicated the Shodair building is a 10 year state lease. The Auditor occupies two-thirds of the building, and the remainder of the building is leased by the Department of Labor an Industry.

Sen. Wells asked about terminology found in the handout EXHIBIT 1 on page 12 including "company appointment". **Mr. Morrison** replied those are agents appointed by various companies authorized to do business in Montana. **Sen. Wells** asked for further explanation on page 12. **Jan Van Riper, State Auditor's Office** explained the information on page 12 for **Sen. Wells**.

Mr. Morrison asked for testimony from the representatives from the insurance agencies. The insurance agencies spoke in favor of the Auditor's budget.

Tanya Ask, Blue Cross Blue Shield (BCBS), talked about BCBS and spoke in favor of the State Auditor's budget proposal.

Joe Murserk, Lobbyist for D.A. Davidson, testified in support of the securities portion of the budget.

Greg VanHorsen, State Farm Insurance, testified in support of the Commissioner's request for funding to provide for efficient and effective regulation of insurers in Montana.

Jacqueline Lenmark, American Insurance Association asked for careful consideration by the subcommittee of the budget request from Mr. Morrison.

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Kelly Kuntz, Vice President and Branch Manager of the Helena D.A. Davidson told the subcommittee how helpful the State Auditor's Office is and testified in favor of the budget proposal.

Jon Metropoulos, Farmers Insurance spoke highly of the State Auditor's Office and in favor of the budget proposal for the State Auditor's Office.

Roger McGlenn, Executive Director of the Independent Insurance Agents Association of Montana, spoke on behalf of the State Auditor's Office and their budget proposal.

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Dave Brown, Legislative Fiscal Division went through the pages in the LFD Budget Analysis book starting on page A-55. He stated this agency has the best cost versus benefit analysis that he has seen throughout the 13 agencies he has works with.

Sen. Stapleton asked **Mr. Brown** to show vacancy savings on his worksheets. **Mr. Brown** said he would do that and wanted **Sen. Stapleton** to know the State Auditor's Office averages about 2.3% vacancy savings.

Mr. Brown continued on with the presentation of the State Auditor's budget and their proposals.

Sen. McCarthy asked if the lektrievers have changed at all in 25 years. **Mr. Huth** said he would like to get rid of the lektrievers. He would like to go in and image every piece of paper. He has talked with the Information Systems Department to see if they are going to get an imagery system that agencies could use and pay a fee.

Mr. Brown continued on with the presentation of the State Auditor's budget and their proposals.

Mary Beth Linder, Office of Budget Program & Planning stated the language on page A-60 is not in the Martz Budget.

Mr. Huth said the language on the Montana Comprehensive Health Association (MCHA) came about because last biennium the State Auditor's Office was appropriated 2 million as a contingency fund for MCHA. He argued with the then **Budget Director Dave Lewis** because he didn't want the 2 million in the State Auditor's Budget. **Mr. Lewis** told **Mr. Huth** it was to go into their budget. **Mr. Huth** indicated these funds are not in the State Auditor's budget this biennium.

Mr. Brown finished with the presentation of the State Auditor's budget and their proposals.

Mr. Morrison asked the subcommittee if they had any more questions about licensing, that **Angela Caruso, Insurance Company Examinations of the State Auditor's Office** could answer them.

{Tape : 3; Side : B; Approx. Time Counter : 30 - 60}

Sen. Stapleton asked if the subcommittee is going to take Executive Action tomorrow. Chairman Davies answered yes. **Sen.**

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Stapleton asked if the subcommittee could get the historical for the last five years.

Sen. Wells asked **Mrs. Caruso** about the licensing information on page 12. She explained this page in greater detail and this helped **Chairman Davies** and **Sen. Wells** understand it.

Rep. Lindeen said **Mr. Brown** would give them an updated sheet for what the subcommittee has done and how the decisions have effected the general fund balance.

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ADJOURNMENT

Adjournment: 11:00 A.M.

REP. BOB DAVIES, Chairman

CYNDIE LOCKETT, Secretary

BD/CL

EXHIBIT (jgh31aad)